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BOARD OF SUPERVISORS

MANAGEMENT AUDIT REPORT

of the

OFFICE OF THE

TREASURER

Harvey M. Rose
Budget Analyst

November 8, 1971

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TABLE OF CONTENTS

	Page
INTRODUCTION	1
SUMMARY	3
RECOMMENDATIONS	9
ORGANIZATION, MANAGEMENT AND PERSONNEL	11
DEPARTMENTAL OPERATIONS	14
Cash Flow	14
Investment Authority	17
Scheduling of Bank Deposit Maturity Dates	19
Deposit of Real Estate Tax Payments	21
Checking Accounts	22
Banking Relations	23
New Position	25
Collateral Securities	26
Safekeeping of Assets	27

INTRODUCTION

The Office of the Treasurer is headed by a Treasurer, who is an elective officer of the City and County, serving a four-year term. The Treasurer is responsible for directing all functions of his Office in accordance with existing laws.

The functions of the Office of the Treasurer are to receive all monies belonging to the City and County which are deposited with the Treasurer, disburse such monies for the redemption of the City and County warrants issued by the Controller and for the payment of any other legal expenditures, maintain records of such financial transactions, and provide for the safekeeping of all monies and securities in the custody of the Treasurer.

Securities, including stocks and bonds, belonging to the Employees Retirement System and to various other departments are maintained in a joint custody vault which is under the responsibility of both the Controller and the Treasurer.

The Office is also responsible for depositing City and County monies in banks in order to earn the maximum amount of interest income on those monies which the Treasurer believes will not be required for the payment of current bills. This latter responsibility can have a significant effect in determining the property tax rate of the City and County.

Other responsibilities include the administration of the sale of City and County bonds, and the administration of the State Inheritance Tax Laws.

The main legal authority for the Treasurer's operations is based

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on Sections 82 and 83 of the Charter of the City and County of San Francisco, Section 10.81 of the San Francisco Administrative Code, Title 5, Division 2, Part 1, Chapter 4 of the Government Code of the State of California and Division 2, Part 8 of the Revenue and Taxation Code of the State of California. Based on information obtained during the audit, the Office is fulfilling its legal responsibilities.

In fiscal year 1971-72, the Office had 20 permanent authorized personnel. The budgeted expenditures amounted to $280,104.

In conducting this management audit, employees and management personnel at all levels within the Office were interviewed. The Treasurer and his entire staff cooperated fully.

The audit scope included interviews with employees of other City and County departments, officials in other Governmental agencies, and officials in 21 banks.

It is estimated that this audit, the total cost of which amounted to $4,911, will result in a minimum increased annual interest income of $932,000 upon the proper implementation of the audit recommendations.

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SUMMARY

The functions of the Office of the Treasurer include the receiving, disbursing and safekeeping of all monies and securities placed in the custody of the Treasurer.

It is also the Treasurer's responsibility to earn interest income on monies which he believes will not be required for the payment of current bills. This latter responsibility can have a significant effect in determining the property tax rate of the City and County.

Some of the policies and procedures of the Office have resulted in a substantial loss of interest income. The incumbent, who was appointed by the Mayor to the position of Treasurer on August 1, 1971, concurs with the Budget Analyst that certain policies and procedures must be changed in order for the City and County to maximize its interest income.

The Treasurer stated that daily information from the various City and County departments, reflecting their anticipated receipts and expenditures, has never been requested. This information is necessary for the establishment of a formalized cash flow system. Such a system is essential in order that the Treasurer can determine his daily cash needs, thereby permitting him to maintain his non-interest bearing checking account balances at a minimum and interest bearing bank deposits at a maximum.

This lack of a formalized cash flow system has resulted in excessive amounts of monies, estimated by the Treasurer to exceed $5,000,000 being maintained on an average daily basis in non-interest bearing checking accounts.

The Treasurer deposits all monies, which he believes will not be needed on a current basis for the payment of his bills, into interest bearing bank deposits. The minimum term for such deposits is 30 days. While the Treasurer realizes that some of the monies in his non-interest bearing checking accounts are unnecessary for the immediate payment of his current bills, he does not place these funds into interest bearing bank deposits since he believes that he will need the monies sometime prior to the required 30-day term.

The Government Code of the State of California gives the Board of Supervisors authority to make safe investments, including United States Treasury notes, bonds and bills, and to delegate such authority to the Treasurer. The Board itself has not made such investments and has not delegated its authority.

The Treasurer has never had an investment policy, and therefore has not requested this authority from the Board. Such a policy would provide the Treasurer not only with the ability to make safe and liquid investments earning interest for periods of less than 30 days, but would also provide him with the flexibility of being able to take advantage of higher interest rates when they occur.

As a result of not having an investment policy, excessive amounts of monies, estimated by the Treasurer to be nearly $2,500,000 are maintained on an average daily basis in non-interest bearing checking accounts.

The Treasurer places substantial sums of monies in interest bearing bank deposits without scheduling such deposits to mature in accordance with an analysis of his anticipated cash needs. As a result, excessive monies are maintained in short term lower interest bearing deposits instead of in long term higher interest bearing

deposits. The Treasurer estimates that 75% of all such deposits are renewed for the same term without an analysis of cash needs.

For example, 11 short term deposits amounting to $35,500,000 all were scheduled to mature on October 4, 1971 instead of being spaced to mature as money is needed to pay current bills. The Treasurer stated that approximately $20,000,000 is the maximum amount that he should have at any one time in such short term deposits.

As a further result of not scheduling these deposits to mature in accordance with cash needs, the Treasurer has been forced to cancel some of these deposits prior to their specified maturity dates since he needed the funds to pay his current bills. This has resulted in the forfeiture of interest income amounting to $89,322 in fiscal year 1969-70, $92,277 in fiscal year 1970-71, and $57,541 through October 17, of fiscal year 1971-72.

In December, 1970, real estate tax payments amounting to $65,750,033.01 were collected by the Tax Collector within the stipulated due date but were not deposited by him with the Treasurer until 11 to 35 days thereafter. In April, 1971, the Tax Collector similarly did not deposit such payments amounting to $60,394,261.98, with the Treasurer until 11 to 27 days after collection. Charter Section 82 requires such payments to be deposited by the Tax Collector with the Treasurer by the next business day following receipt of such monies. This noncompliance with Charter Section 82 has resulted in a loss of approximately $303,000 in interest income to the City and County in fiscal year 1970-71. Some banking officials stated that they would be willing to assist in the processing of these real estate tax monies at no cost to the City and County in order that

such monies could be deposited with the Treasurer's banks on the same day they're received by the Tax Collector.

Although the Treasurer regularly utilizes three banks for writing checks to pay his bills, it has been his policy to maintain non-interest bearing checking accounts at 15 other banks despite the fact that there has been very limited issuance of checks from these accounts. In October, 1971, the total amount on deposit in these 15 checking accounts amounted to $936,718. No checks had been issued from 6 of these accounts, having a total amount of $300,000 on deposit, since March 5, 1969.

In placing new monies in interest bearing bank deposits, it has been the Treasurer's policy to regularly contact four local banks to determine which of these banks will pay the highest rate of interest. Other banks are similarly contacted on an annual basis for new deposits and on a renewal basis when existing deposits have matured. It has also been policy to deposit all proceeds from the sale of City and County bonds to those banks who have purchased the bonds if they were willing to pay the highest rate of interest.

The Budget Analyst contacted 21 local banks. Banking officials generally stated that on any given day, if they had a particular demand for monies, they might be in a position to pay the City and County an interest rate which is slightly higher than any other bank might offer to the City and County.

The Budget Analyst scheduled 28 of the Treasurer's interest bearing deposits, executed between May 17, 1969 and October 4, 1971, with two of the larger banks. Contacts at eight other banks disclosed that in 22 of the 28 cases, these banks were paying the identical

interest rate with the rates received by the Treasurer. In 4 cases they were paying less than the rates received by the Treasurer and in 2 cases they were paying more than the rates received by him.

As a result of not regularly contacting all local banks, when placing new monies in interest bearing deposits, it is uncertain as to whether or not the highest rate of interest available is being obtained.

In the judgment of the Budget Analyst, the creation of one new position, to be filled by a qualified individual, will be necessary in order to adequately implement Recommendation Nos. 1, 2, 3 and 6 of this report. The employment of such an individual should produce a minimum of $580,000 in additional annual interest income to the City and County.

The Treasurer is not independently determining on a quarterly basis, as he is permitted pursuant to the Government Code of the State of California, that banks or their agents are holding as collateral, eligible securities having a market value, as required, of at least 10% in excess of the City and County's deposits. Such a procedure would further assure the safety of these deposits.

The physical security of the assets, including cash on hand and various stocks and bonds, maintained by the Treasurer is inadequate in order to insure their safekeeping. On June 30, 1971, total cash and securities on hand amounted to $511,489,159.

In the interest of preserving existing security measures, the explanation of security inadequacies, together with appropriate recommendations for corrective action, will be discussed orally with the Finance Committee.

It is estimated that the audit recommendations, if properly implemented, will result in a minimum increased annual interest income of $932,000. The total cost of this audit was $4,911.

RECOMMENDATIONS

It is recommended that the Treasurer:

1. Establish a formalized cash flow system by obtaining daily information from the various City and County departments concerning their anticipated receipts and expenditures on a continuous basis in order to maximize the interest earned from the use of all available funds.
2. Request the Board of Supervisors to delegate authority to him pursuant to Section 53607 of the Government Code of the State of California in order that he may invest funds in investments as specified in Sections 53601 and 53602 of the Government Code.
3. Schedule all interest bearing bank deposits, which have specified maturity dates, to mature in accordance with an analysis of anticipated cash needs to permit the maximum amount of available funds being placed in long term higher interest bearing deposits in lieu of short term lower interest bearing deposits. Such scheduling should also prevent the forfeiture of interest income resulting from the cancellation of these deposits prior to maturity.
4. Collaborate with the Tax Collector to the end that there be timely compliance with Charter Section 82 which requires the Tax Collector to deposit real estate tax payments with the Treasurer not later than the next business day following receipt in order to avoid additional losses of interest income.
5. Transfer all non-interest bearing monies, amounting to $936,718, currently on deposit in checking accounts in 15

banks where there has been very limited activity in the use of these funds, to interest bearing bank deposits.

6. Contact all local banks, in lieu of just the four banks regularly being contacted, prior to determining with which bank new interest bearing deposits should be placed in order to insure that the highest rates of interest income are being obtained.

7. Request the creation of one new position to assist the Treasurer in the implementation of Recommendation Nos. 1, 2, 3 and 6 above in order to realize substantial increased annual interest income.

8. Request from all banks or their agents, pursuant to Section 53660 of the Government Code of the State of California, a quarterly certification, together with a list of the specific securities that the banks are holding as collateral to secure all City and County bank deposits. This should be done in order to independently determine that such deposits are adequately secured.

ORGANIZATION, MANAGEMENT AND PERSONNEL

The Office of the Treasurer is organized in accordance with the organization chart as shown on page 13. The former Treasurer retired on July 31, 1971, during his term of office. The incumbent, who had occupied the position of Chief Assistant Treasurer, was appointed by the Mayor to the position of Treasurer on August 1, 1971.

The Treasurer and the Chief Assistant Treasurer are responsible for the ay to day administrative activities of the Office with the Treasurer handling most of the official outside contacts. Both of them are in daily contact with bank officials in connection with the depositing of City and County funds. The Treasurer is also responsible for being fully knowledgeable in the various State laws affecting the activities of his Office.

The Principal Clerk Stenographer is responsible for various clerical functions, payroll preparation and coordination of personnel requests.

The Accounting Division is responsible for various accounting and budgetary functions including the recording of receipts and disbursements, the maintaining of bank deposit balances, the processing of payments due to street improvement bondholders and the preparation of interest income billings to banks.

The Inheritance Tax Division, in accordance with the State inheritance tax laws, is responsible for taking inventories of the contents of safe deposit boxes held in San Francisco belonging to deceased persons, collecting all inheritance taxes due as determined by the State from deceased residents of San Francisco and paying such

taxes to the State Treasurer.

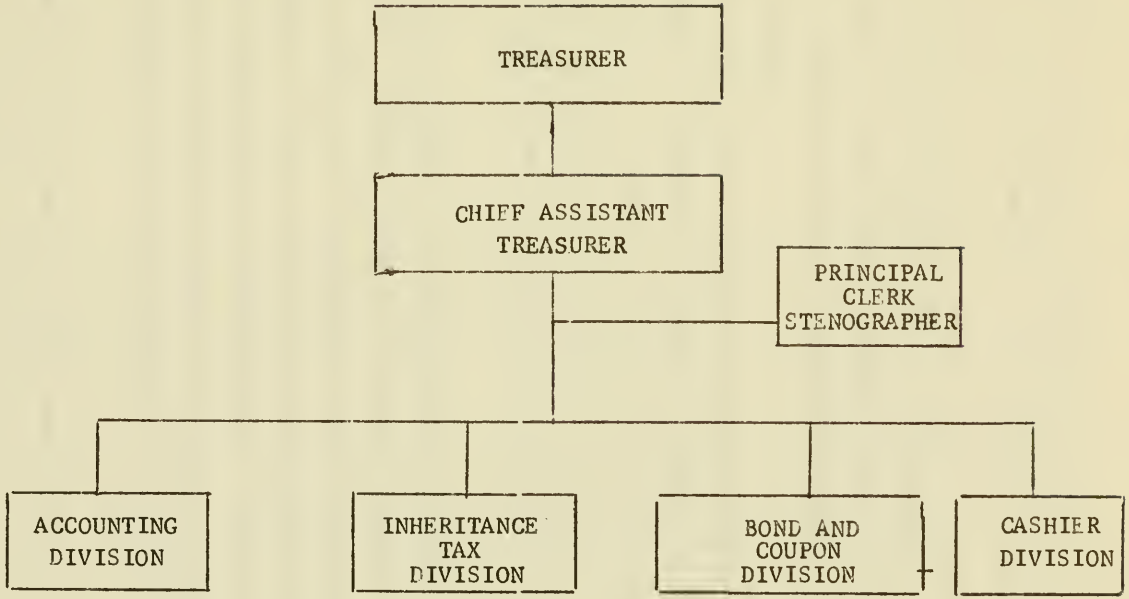
The Bond and Coupon Division is responsible for the payment of bond interest and redemption monies due to City and County bondholders.

The Cashier Division responsibilities include the cashing of City and County warrants, the processing of daily receipts and preparation of bank deposits, the processing of the redemption of City and County warrants including 2,243,184 processed in fiscal year 1970-71, the safekeeping of assets, the processing of the amounts due from bonds owned by the Employees Retirement System, the maintaining of records of the securities owned by the Employees Retirement System and the processing of forgery claims pertaining to City and County warrants.

Total cash receipts and disbursements for fiscal year 1970-71 were $986,951,033 and $967,724,363 respectively.

While employees, in general, have capably executed their assigned duties, some of the policies and procedures have resulted in a substantial loss of interest income. The Treasurer agrees with the Budget Analyst that certain policies and procedures must be changed in order for the City and County to maximize its interest income. ..

ORGANIZATION CHART



DEPARTMENTAL OPERATIONS

Cash Flow

Employees of various City and County departments deposit cash receipts daily with the Treasurer. The Treasurer deposits such cash receipts with banks in active non-interest bearing checking accounts. The Treasurer pays his current bills by drawing checks on these accounts to redeem City and County warrants issued by the Controller and to pay for various other legal expenditures such as City and County bond interest.

When the monies in the checking accounts accumulate to an amount in excess of what the Treasurer believes is necessary for the payment of his current bills, the Treasurer transfers these monies to inactive interest bearing nonnegotiable certificates of deposit. Such bank deposits bear interest for the term of the deposit at a specified interest rate.

In transferring monies to interest bearing deposits, the Treasurer utilizes only very general historical information pertaining to anticipated receipts and expenditures of the various City and County departments. These transfers are accomplished without a formalized cash flow analysis to determine his cash requirements. Such an analysis is essential in order to maintain checking account balances at a minimum and interest bearing bank deposits at a maximum.

The Treasurer stated that his Office has never requested daily information from departments reflecting their anticipated receipts and expenditures in order to make a formalized cash flow analysis.

He stated that the current estimates of his daily cash needs are based largely on after the fact information, including departmental cash receipts deposited with him and departmental expenditures noted when the Controller's warrants issued for such expenditures have cleared the banks.

A cash flow analysis could include a determination as to the length of time Employees Retirement System warrants remain outstanding, and whether Departments are delaying the payment for certain expenditures until such payments are actually due. The Treasurer should also advise all departments to promptly deposit their cash receipts with him in accordance with Charter requirements. This is not being done in all cases.

The Treasurer is responsible for the management of a significant amount of monies as evidenced by the following data:

Cash Balances	June 30, 1971
Active bank deposits	$ 4,916,635
Inactive bank deposits	291,674,366
Cash on hand	1,936,878
Cash in transit	6,286,969
Total cash	$304,814,848

As a result of a lack of a formalized, professionally analyzed cash flow system, excessive amounts of monies, estimated by the Treasurer to exceed $5,000,000, are maintained on an average daily basis in his non-interest bearing checking accounts.

The Treasurer believes that if he could obtain proper information from the various departments as to their anticipated receipts and disbursements on a daily basis, he would then be in a position to reduce his non-interest bearing checking account balances from their

fiscal year 1970-71 average of 4.04% of the total average daily cash on deposit in banks to 2% of this total.

The following data reflects the average daily bank balances on a 365-day basis during the past two fiscal years:

Fiscal Year	Total Average Daily Cash on Deposit in Banks	Average Daily Interest Bearing Cash (Inactive Bank Deposits) Amount	% of Total	Average Daily Non-Interest Bearing Checking Accounts (Active Bank Deposits) Amount	% of Total
1969-70	$228,424,635	$216,751,668	94.89	$11,672,967	5.11
1970-71	249,614,763	239,519,693	95.96	10,095,070	4.04

If the checking account balances had been reduced to 2% of the total average daily cash on deposit, the 1970-71 data would have appeared as follows:

Fiscal Year	Total Average Daily Cash on Deposit in Banks	Average Daily Interest Bearing Cash (Inactive Bank Deposits) Amount	% of Total	Average Daily Non-Interest Bearing Checking Accounts (Active Bank Deposits) Amount	% of Total
1970-71	$249,614,763	$244,622,468	98	$4,992,295	2

The Treasurer must obtain daily information from the various City and County departments concerning their anticipated receipts and expenditures on a continuous basis for the establishment of a formalized cash flow system. This system is essential to maximize the interest earned from the use of all available City and County funds. This is the subject of Recommendation No. 1. It is estimated that the implementation of this recommendation will result in an increased annual interest income of $306,000.

Investment Authority

All monies which the Treasurer believes he will not need on a current basis for the payment of his bills are deposited with banks in inactive interest bearing nonnegotiable certificates of deposit. In accordance with Federal and State laws, these deposits constitute a specified amount of money bearing a stipulated rate of interest for a specified term from a minimum of 30 days to a maximum of one year.

While the Treasurer realizes that some of the monies in his non-interest bearing checking accounts are unnecessary for the immediate payment of his current bills, he does not place these funds into interest bearing deposits since he believes that he will need the monies sometime prior to the required 30-day term.

The Board of Supervisors is authorized to invest those monies "...not required for the immediate necessities of the local agency..." into investments pursuant to Sections 53601 and 53602 of the Government Code. These investments include United States Treasury notes, bonds and bills. Section 53607 permits the Board to delegate its authority to the Treasurer. The Board itself has not made such investments and has not delegated its authority.

The Treasurer has never had an investment policy, and therefore has not requested this authority from the Board. Such a policy would permit short term safe and liquid investments earning interest income on monies now maintained in non-interest bearing checking accounts. These investments could be for periods as short as one day. Such investments could be made in United States Treasury bills, purchased and sold on a daily basis. Also, repurchase agreements would be executed wherein

banks would sell certain securities as specified in Sections 53601 and 53602 of the Government Code to the Treasurer and then repurchase the same securities from him on the following day or on any specified date at the same price plus a specified rate of interest. Therefore, the Treasurer would be able to earn interest on monies invested for a period of time between 1 day and 30 days.

As a result of not having an investment policy, excessive amounts of monies, estimated by the Treasurer to be nearly $2,500,000, are maintained on an average daily basis in non-interest bearing checking accounts. The Treasurer estimates that if he could make short term investments, he would be in a position to further reduce the non-interest bearing checking account balances by 1% of the total average daily cash on deposit in banks in fiscal year 1970-71.

An investment policy would provide the Treasurer not only with the ability to earn interest for periods of less than 30 days, but would also provide him with the flexibility of being able to take advantage of higher interest rates when they occur.

As evidenced by the following data, the interest yields on United States Treasury bills may at any period of time be significantly higher or lower than the interest rates paid by banks on nonnegotiable certificates of deposit:

	Fiscal Year 1969-70	Fiscal Year 1970-71
Range of interest rates paid to Treasurer	7.50 - 5.50[1]	7.50 - 3.75
Range of interest yields available on United States Treasury bills	8.10 - 6.00[2]	6.76 - 3.17[2]

1 Based on deposits of $100,000 or greater
2 Based on yields quoted by three banks

The Treasurer should request authority from the Board of Supervisors to make investments in accordance with the Government Code. This is the subject of Recommendation No. 2.

It is estimated that the implementation of this recommendation will result in increased annual interest income of $124,000. This estimate is based strictly on the additional interest income to be earned on monies now maintained in non-interest bearing checking accounts. It does not consider any additional interest income which can be earned as a result of interest rates on investments exceeding the interest rates on nonnegotiable certificates of deposit.

Scheduling of Bank Deposit Maturity Dates

As previously mentioned, the Treasurer deposits with banks all monies which he believes will not be needed on a current basis for the payment of bills in inactive interest bearing nonnegotiable certificates of deposit. Such deposits have specified maturity dates and bear stipulated rates of interest. Presently lower interest rates are paid for short term certificates of deposit whereas deposits remaining in the banks for longer periods of time pay higher interest rates.

These deposits made by the Treasurer are not scheduled to mature in accordance with an analysis of his anticipated cash requirements. The Treasurer estimates that 75% of all certificates of deposit are renewed, when they mature, for the same term without such an analysis. For example, 11 certificates of deposit amounting to $35,500,000, having 31 to 32 day maturity dates, were all scheduled to mature on October 4, 1971, instead of being spaced to mature as

cash is needed to pay current bills. The Treasurer stated that there should never be more than approximately $20,000,000 outstanding in such short term lower interest bearing certificates of deposit.

As a result of depositing funds into certificates of deposit without scheduling them to mature in accordance with an analysis of anticipated cash needs, excessive monies are maintained in lower interest bearing short term deposits instead of in long term higher interest bearing deposits.

Some of the interest bearing certificates of deposit have been cancelled prior to their specified maturity dates. This is a further result of not scheduling these deposits to mature in accordance with cash needs. These cancellations have resulted in the forfeiture, in accordance with Federal laws, of a significant amount of interest income. Cancellations have occurred because the funds placed in certificates of deposit were subsequently needed for the payment of current bills prior to the maturity dates of the deposits.

The following data reflects the forfeiture of interest income:

	Number of Certificates of Deposit Cancelled	Amount of Interest Income Forfeited
Fiscal year 1969-70	8	$89,322
Fiscal year 1970-71	12	$92,277
Fiscal year 1971-72 through October 17	7	$57,541

To permit the maximum amount of available funds being placed in long term higher interest bearing certificates of deposit in lieu of short term lower interest bearing deposits, and in order that interest income is not forfeited due to the cancellation of interest bearing bank deposits prior to their specified maturity dates, these deposits

should be scheduled to mature in accordance with an analysis of anticipated cash needs. This is the subject of Recommendation No. 3. It is estimated that the implementation of this recommendation will result in increased annual interest income of $150,000.

Deposit of Real Estate Tax Payments

Real estate tax payments received by the Tax Collector have not been deposited with the Treasurer by the next business day following the receipt of such monies. This is in violation of Charter Section 82.

In December 1970, real estate tax payments amounting to $65,750,033.01 were collected by the Tax Collector within the stipulated due date. Such monies were not deposited by him with the Treasurer until 11 to 35 days thereafter.

In April 1971, the Tax Collector did not deposit, with the Treasurer, real estate tax payments which he received by the stipulated due date, amounting to $60,394,261.98 until 11 to 27 days after collection.

The Tax Collector stated that although he was aware of a backlog problem in the processing of such monies collected, he was not aware of its magnitude. Eight days of the delay in transmittal to the Treasurer results from the fact that the Tax Collector deposits these monies in a bank utilized by his Department, and then waits eight days before drawing a check from this bank and depositing it with the Treasurer. Although this procedure is followed in order to insure that all the checks deposited with the Tax Collector from citizens have cleared the banks, it is a superfluous procedure since the

Treasurer maintains a reserve in his own checking accounts in the event that checks, deposited with him, may not clear the banks.

Banking officials at six of the banks contacted during this audit stated that they would be willing to assist in the processing of these tax payments, at no cost to the City and County, in order that such monies could be deposited with the Treasurer's banks on the same day they are received by the Tax Collector. Two of these banking officials stated that the final determination as to whether they would assist in the processing would be contingent upon the costs involved. The Treasurer stated that he would work with the Tax Collector in the coordination of all assistance to be provided by the banks.

Noncompliance with Charter Section 82's requirement for timely depositing of real estate tax payments with the Treasurer by the next business day following receipt of such monies has resulted in a loss of approximately $303,000 in interest income to the City and County in fiscal year 1970-71. In order to avoid similar additional losses, it is recommended that the Treasurer collaborate with the Tax Collector to insure full and timely compliance with Charter Section 82. This is the subject of Recommendation No. 4. It is estimated that the implementation of this recommendation will result in increased annual interest income of $303,000.

Checking Accounts

Checks are regularly being drawn by personnel for the payment of the Treasurer's bills in active non-interest bearing checking accounts at three banks. However, in addition to the checking accounts

maintained at these three banks, it has been the Treasurer's policy to maintain such non-interest bearing checking accounts at 15 other banks despite the fact that there has been very limited issuance of checks from these latter bank accounts. No checks have been issued from 6 of these banks, having a total amount of $300,000 on deposit, since March 5, 1969.

As of October 22, 1971, the 15 banks had a total amount on deposit in such checking accounts of $936,718. The monies in these non-interest bearing checking accounts should be transferred to interest bearing bank deposits. This is the subject of Recommendation No. 5. It is estimated that the implementation of this recommendation will result in increased annual interest income of $49,000.

Banking Relations

In placing new monies in interest bearing nonnegotiable certificates of deposit, it has been the Treasurer's policy to regularly contact four local banks to determine if such banks will accept the City and County funds, and if they will pay the highest rate of interest available from these four banks. The Treasurer contacts various other local banks annually to determine if they are interested in accepting new interest bearing funds. He stated that in the past, the latter banks when contacted regularly either refused to take such funds or were unable to legally accept the monies pursuant to State laws.

As a result of not regularly contacting all local banks, when placing new funds in interest bearing deposits, it is uncertain as to whether or not the highest rate of interest available is being obtained.

It has been the Treasurer's policy to renew certificates of deposit at the same bank where the funds are on deposit if such banks will pay the highest rate of interest available at the four banks regularly contacted.

It has also been the Treasurer's policy to deposit all proceeds from the sale of City and County bonds to those banks who have purchased the bonds, if such bonds were paying the highest rate of interest available.

The Budget Analyst contacted 21 local banks. Banking officials generally stated that the interest rates paid by their respective banks were competitive with one another in that such rates were close to or the same as the rates paid by other banks. These officials also stated that in the determination as to whether or not they would accept interest bearing deposits from the Treasurer, the State financial requirements pertaining to public funds as well as the particular demand for the monies at the time contacted are considered.

Banking officials generally stated that on any given day, if they had a particular demand for funds, they might be in a position to pay the Treasurer a slightly higher interest rate than any other bank might offer him. Some of the banks stressed the fact that they are providing services to the City and County such as the cashing of welfare warrants and that this should also be considered in determining where to deposit the monies.

The Budget Analyst scheduled 28 certificates of deposit which were executed on various dates between May 17, 1969 and October 4, 1971 with two of the larger banks. Contacts at eight other banks, to confirm what interest rates they were paying on the specific dates

that the 28 certificates were executed, disclosed that in 22 of the 28 certificates, these banks were paying the identical rate received by the Treasurer. In 4 cases, they were paying less than the rates received by the Treasurer and in 2 cases, they were paying more than the rates received by the Treasurer.

The following data reflects the interest income earned by the Treasurer during the past two fiscal years:

	Fiscal Year 1969-70	Fiscal Year 1970-71
Range of interest rates available to Treasurer[1]	7.50 - 5.50[2]	7.50 - 3.00
Range of interest rates paid to Treasurer	7.50 - 5.50[2]	7.50 - 3.75
Average daily interest bearing cash (inactive bank deposits)	$216,751,668[3]	$239,519,693[3]
Interest income earned	$ 13,687,844	$ 14,509,907
Average rate of interest income	6.31	6.06

1 Based on rates quoted by three banks
2 Based on deposits of $100,000 or greater
3 Based on a 365-day average - the actual amount on June 30, 1970 was $251,728,057 and on June 30, 1971 was $291,674,366

In order to insure that the highest rates of interest income are being obtained by the Treasurer, all local banks should be regularly contacted prior to determining with which bank new interest bearing deposits should be placed. This is the subject of Recommendation No. 6. The increased annual interest income to result from this recommendation cannot be fairly estimated.

New Position

A review of the duties performed by the 20 personnel employed in the Office of the Treasurer disclosed that one new position will be

needed by the Treasurer in order for him to adequately implement Recommendation Nos. 1, 2, 3 and 6 contained in this report.

The employment of a qualified individual will be necessary in order that he fulfill various responsibilities including the establishment of a cash flow system necessitating daily contacts with the various City and County departments, the making of investments in accordance with State laws, the scheduling of all interest bearing bank deposits in order that they mature in accordance with cash needs and the contacting of all local banks for determining where the highest rates of interest income are available.

In the judgment of the Budget Analyst, such responsibilities cannot be adequately fulfilled by the Treasurer's present staff. In order to realize increased annual interest income of at least $580,000 which should result from the implementation of the above stated recommendations, the Treasurer should request the creation of a new position to assist him in their implementation. This is the subject of Recommendation No. 7.

Collateral Securities

Effective July 1, 1970, in accordance with the Government Code of the State of California, bank securities serving as collateral for the City and County's bank deposits are no longer deposited by the bank with the Treasurer but are rather held by the bank or its agent. Such eligible securities, specified in the Government Code, must have a market value of at least 10% in excess of the total amount of City and County funds on deposit with the bank in order to assure the safety of such funds.

As of June 30 of each year, the Controller obtains letters from all banks or their agents, including an actual listing of the applicable securities from some of the banks, certifying that the 10% requirement is being met. However, the Treasurer is not independently confirming, pursuant to Section 53660 of the Government Code, that this requirement is being met on a quarterly basis.

Pursuant to Section 53660 of the Government Code, the Treasurer should request a quarterly certification from the banks or their agents, together with a list of the specific securities in order to independently determine that City and County funds on deposit are adequately secured. This is the subject of Recommendation No. 8.

Safekeeping of Assets

The physical security of the assets, including cash on hand and various stocks and bonds, is inadequate in order to insure their safekeeping.

In view of the significant amount of assets maintained in the Office of the Treasurer, their physical security is essential. The following lists assets on hand with the Treasurer at the close of the last fiscal year:

	June 30, 1971
Cash	$ 1,936,878
Securities	
Collateral securities owned by banks	- 0 -
Stocks and bonds owned by the Employees Retirement System	509,057,886
Various other securities	494,395
Total cash and securities on hand	$511,489,159

In the interest of preserving existing security measures, the explanation of security inadequacies, together with appropriate recommendations for remedial action, will be discussed orally with the Finance Committee.